

**STATE BOARD OF EQUALIZATION**

916-445-6493

November 23, 1983

[X]

Dear Ms. [X]:

Your letter of August 3, 1983, has been referred to me for reply. You request our opinion as to the correct application of tax to your sale of "yeast granulars."

We understand that you sell "yeast granulars" (i.e., viable fermentative yeast and non-viable pasteurized yeast) which are used in the production of bread, beer, mead, and wine. Apparently, you charge your customers sales tax reimbursement of the sale of these products. Several of your customers state that they do not pay tax when they purchase yeast granulars from grocery or health food stores. You would like to know whether tax applies to your sale of these yeast products.

In our opinion, tax does not apply to the sale of viable yeast which is sold as a food for human consumption in the production of bread and malted alcoholic beverages such as beer, mead, and ale. Additionally, the sale of unusual foods, such as pasteurized nonfermentation yeast ("yeast nutrients"), is not subject to tax except when the product label states it is a food supplement of the equivalent. We have decided, however, that tax applies to the sale of viable fermentative yeast used in the manufacture of wine, because this yeast is purchased for use as a manufacturing aid and is only incidentally incorporated into the final product which is consumed (Business Law Tax Guide Annotation 440.0780, May 2, 1961).

Therefore, tax does not apply to your sale of "yeast granulars" for use in the production of bread, mead, and beer. Tax applies to your sale of fermentation yeast for use in the manufacture of wine.

If you have any further questions, please write this office.

Very truly yours,

Charles J. Graziano
Tax Counsel

CJG:ba